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BEYOND ADOPTION: THE CONTINGENT ROLE OF CORPORATE GOVERNANCE IN MODERATING IFRS EFFECTIVENESS AGAINST EARNINGS MANAGEMENT

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ABSTRACT: *This study investigates the moderating role of corporate governance mechanisms on the relationship between International Financial Reporting Standards (IFRS) adoption and earnings management across diverse institutional contexts. Drawing upon an integrated theoretical framework combining agency theory, institutional theory, positive accounting theory, and stewardship theory, the research employs a quantitative longitudinal panel design analyzing publicly listed firms across multiple jurisdictions from 2005 to 2025. Earnings management is measured using discretionary accruals (Modified Jones Model) and real earnings management proxies, while corporate governance is operationalized through board independence, audit committee effectiveness, institutional ownership, and ownership concentration. Hierarchical multiple regression and system GMM estimation address endogeneity concerns. Findings reveal three principal insights: (1) governance mechanisms serve as critical substitutes for weak external enforcement in jurisdictions such as Nigeria, while exhibiting a ceiling effect in high-quality reporting environments such as South Africa; (2) in concentrated ownership structures (e.g., India), conventional governance mechanisms may be captured by controlling shareholders, rendering them ineffective moderators; and (3) specific IFRS standards such as IFRS 15 may not constrain earnings management regardless of governance quality. The study rejects naive universalism in favour of contingency-based policy designs sensitive to local enforcement strength, ownership structures, and governance maturity. Recommendations include jurisdiction-specific governance precondition assessments, redesigned governance codes addressing principal-principal conflicts, and strengthened enforcement coordination.*

KEYWORDS: IFRS adoption, earnings management, corporate governance, agency theory, institutional theory, earnings quality.

INTRODUCTION

The global proliferation of International Financial Reporting Standards (IFRS) represents one of the most consequential regulatory transformations in contemporary financial reporting, with over 140 jurisdictions mandating adoption under the premise that standardized disclosure requirements enhance transparency, comparability, and overall financial reporting quality (Barth, Landsman, & Lang, 2008; Leuz & Wysocki, 2016). At its core, IFRS is predicated on a principles-based philosophy that grants managers professional judgment in applying accounting standards, theoretically enabling faithful representation of economic substance while reducing information asymmetry between managers and external stakeholders (Ball, 2006). However, a mounting body of empirical evidence has exposed a troubling paradox: mandatory IFRS adoption has frequently failed to reduce—and in some contexts has paradoxically increased—earnings management practices, with managers exploiting the inherent discretion within principles-based standards to manipulate reported earnings rather than faithfully represent economic reality (Ahmed, Neel, & Wang, 2013; Christensen, Hail, & Leuz, 2013). This inconsistency has prompted researchers to question whether IFRS adoption alone constitutes a sufficient mechanism for improving reporting quality or whether its effectiveness is fundamentally contingent upon complementary institutional and governance infrastructures (Ball, Robin, & Wu, 2003; Sami & Zhou, 2018).

The growing recognition that IFRS effectiveness varies dramatically across jurisdictions has directed scholarly attention toward understanding the boundary conditions under which IFRS disciplines managerial opportunism (DeFond, Gao, Li, & Xia, 2022; Leuz & Wysocki, 2016). Evidence from emerging economies demonstrates that in countries with weak enforcement mechanisms and concentrated ownership structures, IFRS adoption often produces only symbolic compliance rather than substantive improvements in earnings quality (Barghathi, Sriram, Khan, & Riaz, 2025; Gomes & Costa, 2025). Conversely, in jurisdictions with pre-existing high-quality institutional environments—such as South Africa's sophisticated financial infrastructure aligned with the King IV Code—the marginal contribution of IFRS adoption to constraining earnings management becomes negligible because reporting integrity was already achieved through alternative mechanisms (Ansah, 2025). These divergent outcomes suggest that IFRS operates not as a standalone regulatory intervention but as one component within a multi-layered ecosystem where enforcement quality, legal regimes, and corporate governance structures jointly determine financial reporting outcomes (Armstrong, Barth, Jagolinzer, & Riedl, 2010; Zehri & Chouaibi, 2013). This contingency perspective challenges the universalistic assumptions underlying IFRS promotion by international bodies and calls for more context-sensitive regulatory designs.

Despite the theoretical proposition that corporate governance mechanisms—including board independence, audit committee effectiveness, institutional ownership, and ownership concentration—should moderate the IFRS-earnings management relationship by providing internal monitoring that complements external regulatory frameworks, the empirical integration of these two domains remains remarkably underdeveloped (Shleifer & Vishny, 1997; Uyar, Gerged, Kuzey, & Karaman, 2025). Agency theory predicts that governance structures align managerial incentives with shareholder interests, thereby reducing the propensity for opportunistic earnings manipulation (Jensen & Meckling, 1976). However, recent cross-jurisdictional evidence reveals that governance mechanisms do not uniformly amplify IFRS effects; rather, they may substitute for, complement, or be captured by controlling shareholders depending on institutional context (Ansah, 2025; Barghathi et al.,

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2025). The Indian case is particularly instructive: IFRS convergence paradoxically increased earnings management post-adoption, with principal-principal conflicts between majority and minority shareholders—rather than classical principal-agent conflicts—identified as the primary explanatory factor (Gomes & Costa, 2025). This finding suggests that governance configurations effective in dispersed ownership contexts may be structurally inadequate in concentrated ownership environments, yet existing research has not systematically identified the specific governance configurations necessary for IFRS to achieve its intended disciplinary effects (Sami & Zhou, 2018; Yildirim, 2025).

This study addresses the identified policy and theoretical gaps by empirically investigating the moderating role of corporate governance mechanisms on the IFRS-earnings management relationship across diverse institutional contexts, with the specific objectives of (1) examining how governance mechanisms moderate this relationship across different enforcement environments, and (2) identifying the specific governance configurations that serve as necessary complementary conditions for IFRS effectiveness. The research makes three principal contributions. First, it advances contingency theory in international accounting by demonstrating that governance-IFRS interactions are not universal but depend critically on enforcement strength, ownership structures, and governance maturity. Second, it provides empirical evidence from under-researched jurisdictions including Sub-Saharan Africa and India, thereby addressing the Western-centric bias prevalent in IFRS research. Third, it offers actionable policy recommendations for standard-setters and regulators seeking to harmonize accounting standards with governance reforms in a context-sensitive manner. By reconceptualizing IFRS adoption not as an endpoint but as one component within a regulatory ecosystem, this study provides a foundation for evidence-based policy design that moves beyond one-size-fits-all regulatory approaches.

Statement of the Problem

The central problem motivating this inquiry is the profound and persistent disconnect between the theoretical objectives of International Financial Reporting Standards (IFRS) adoption and its empirically observed effectiveness in constraining earnings management across diverse institutional contexts. IFRS was explicitly designed as a principles-based accounting framework to enhance financial reporting transparency, reduce information asymmetry between managers and stakeholders, and ultimately curb opportunistic earnings manipulation through increased disclosure quality and comparability (Barth, Landsman, & Lang, 2008). However, a growing body of post-adoption evidence has revealed that IFRS adoption, when implemented without corresponding improvements in corporate governance infrastructure, has frequently failed to reduce—and in some cases has paradoxically increased—earnings management practices (Ahmed, Neel, & Wang, 2013; DeFond, Gao, Li, & Xia, 2022). This paradoxical outcome appears particularly pronounced in jurisdictions characterized by weak enforcement mechanisms, concentrated ownership structures, and underdeveloped audit markets, where managers may exploit the increased discretion inherent in principles-based standards to mask true economic performance rather than faithfully represent it (Leuz & Wysocki, 2016). Consequently, the assumption that IFRS adoption alone serves as a sufficient disciplinary mechanism against earnings management has been substantially undermined, leaving policymakers and standard-setters without clear guidance on how to structure regulatory reforms that genuinely improve reporting quality.

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The problem is further complicated by evidence that earnings management not only distorts capital allocation decisions but also systematically diverts corporate resources away from long-term value-creating activities, including environmental, social, and governance initiatives, as managers prioritize short-term earnings targets over sustainable investments (Uyar, Gerged, Kuzey, & Karaman, 2025). Thus, the core problem is not merely technical non-compliance with accounting standards but rather a fundamental governance failure wherein IFRS adoption becomes decoupled from the institutional mechanisms necessary to constrain managerial opportunism.

Compounding this problem is the marked absence of integrated regulatory frameworks that explicitly address how corporate governance mechanisms interact with IFRS adoption to jointly determine earnings management outcomes, resulting in fragmented policy responses that treat these domains as separate rather than complementary. While extensive research has independently examined the effects of board independence, audit committee effectiveness, institutional ownership, and ownership concentration on earnings management, remarkably few studies have systematically theorized and empirically tested the moderating role of governance mechanisms on the IFRS-earnings management relationship (Armstrong, Barth, Jagolinzer, & Riedl, 2010; Iatridis, 2010). The evidence that does exist reveals strikingly inconsistent patterns: in some contexts, strong governance mechanisms amplify IFRS's disciplining effects, while in others, governance substitutes for or has no interactive effect with IFRS adoption (Anjum & Malik, 2022; Zehri & Chouaibi, 2013). This inconsistency suggests that current theoretical models inadequately capture the contingent nature of governance-IFRS interactions, particularly regarding how different governance configurations function across varying institutional environments such as common law versus code law legal systems, strong versus weak enforcement regimes, and dispersed versus concentrated ownership economies (Sami & Zhou, 2018).

Research from emerging markets further complicates the picture: evidence from India documented that IFRS convergence paradoxically increased earnings management post-adoption, with governance weaknesses—specifically power imbalances enabling majority shareholder expropriation—identified as the primary explanatory factor undermining the standards' intended disciplinary effects (Barghathi, Sriram, Khan, & Riaz, 2025). Similarly, evidence from Sub-Saharan African markets demonstrated that corporate governance mechanisms played a critically significant moderating role precisely in jurisdictions with weaker external enforcement environments, while showing only modest incremental effects in countries with already robust regulatory frameworks (Ansah, 2025). These divergent findings indicate that the problem is not merely empirical but theoretical: existing frameworks lack the necessary specificity to guide policymakers on which governance mechanisms, under what conditions, and through what causal pathways interact with IFRS adoption to effectively curb earnings management. Without such integrated knowledge, regulatory bodies risk either overinvesting in IFRS adoption while neglecting governance reforms, or implementing governance requirements that are misaligned with the specific agency problems that IFRS adoption intends to address.

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Objectives of the study

i. To examine the moderating effect of corporate governance mechanisms—specifically board independence, audit committee effectiveness, and institutional ownership—on the relationship between IFRS adoption and earnings management practices across different institutional environments.

ii. To identify the specific governance configurations (e.g., levels of ownership concentration, board independence thresholds, and enforcement quality) that serve as necessary complementary conditions for IFRS adoption to effectively curb earnings management, and to propose an integrated policy framework for harmonizing accounting standards with governance reforms.

Research Questions

i. To what extent do corporate governance mechanisms-specifically board independence, institutional ownership, ownership concentration, audit committee effectiveness, and CEO duality-moderate the relationship between IFRS adoption and earnings management across different institutional context?

ii. What specific configurations (board independence, institutional ownership, ownership concentration, audit committee effectiveness, and CEO duality) serve as necessary complementary conditions for IFRS adoption to effectively curb earnings management?

LITERATURE REVIEW

This section of the research reviews the theoretical and empirical literature underpinning the study's investigation of how corporate governance mechanisms moderate the relationship between IFRS adoption and earnings management. The review is organized into four thematic sections. First, the conceptual foundations of earnings management are examined, distinguishing between accrual-based and real earnings management. Second, the theoretical frameworks—agency theory, positive accounting theory, institutional theory, and stewardship theory—are synthesized into an integrated model. Third, the empirical evidence on IFRS adoption and earnings management is critically evaluated, highlighting the inconsistent findings that motivate this study. Fourth, the literature on corporate governance as a moderating mechanism is reviewed, identifying the specific governance configurations that prior research suggests may amplify or attenuate IFRS effectiveness. The section concludes by identifying the research gaps that this study addresses.

Conceptual Foundations of Earnings Management

Earnings management is conceptually defined as the deliberate manipulation of financial reporting outcomes by managers within the bounds of accounting discretion to achieve predetermined earnings targets (Healy & Wahlen, 1999). This manipulation is distinguished from fraudulent reporting by its technical compliance with accounting standards, yet both forms ultimately obscure the underlying economic reality of the firm and exacerbate

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information asymmetry between managers and stakeholders (Dechow & Skinner, 2000). Earnings management manifests in two principal forms.

Accrual-based earnings management involves the strategic manipulation of accounting estimates, recognition timing, and classification choices within Generally Accepted Accounting Principles (GAAP) or IFRS frameworks. Managers may accelerate revenue recognition, delay expense recognition, or manipulate discretionary accruals such as provisions for bad debts, warranty liabilities, and depreciation estimates to smooth earnings or meet analyst forecasts (Dechow, Sloan, & Sweeney, 1995; Kothari, Leone, & Wasley, 2005). The Modified Jones Model, which separates discretionary (managed) accruals from non-discretionary (normal) accruals, remains the dominant empirical approach for detecting accrual-based earnings management (Dechow et al., 1995; Jones, 1991).

Real earnings management involves altering operational decisions—such as reducing research and development expenditures, cutting discretionary advertising costs, accelerating sales through price discounts, or overproducing to reduce cost of goods sold—to manipulate reported earnings (Roychowdhury, 2006). Unlike accrual-based management, real earnings management affects actual cash flows and has long-term consequences for firm value, making it particularly concerning for long-term investors (Cohen, Dey, & Lys, 2008). Prior research demonstrates that managers substitute real earnings management for accrual-based manipulation when regulatory scrutiny intensifies, suggesting that the two forms are complements rather than substitutes (Zang, 2012). This distinction is critical for this study, as IFRS adoption may differentially affect accrual-based versus real earnings management depending on governance configurations.

Theoretical Framework

This study draws upon four complementary theoretical frameworks that collectively explain how IFRS adoption and governance mechanisms jointly constrain earnings management.

i. Agency Theory

Agency theory (Jensen & Meckling, 1976) serves as the dominant theoretical lens, positing that earnings management arises fundamentally from the principal-agent problem wherein managers (agents) possess information advantages over shareholders (principals) and pursue self-interested behaviours—including bonus maximization, debt covenant avoidance, and job security preservation—at the expense of shareholder value. From an agency perspective, IFRS adoption reduces information asymmetry by standardizing disclosure requirements, thereby enhancing principals' ability to monitor agents, while corporate governance mechanisms such as independent boards, audit committees, and institutional ownership function as direct monitoring devices that constrain opportunistic managerial discretion (Watts & Zimmerman, 1990). However, agency theory alone cannot explain why IFRS adoption sometimes increases earnings management, leading to the incorporation of complementary theoretical frameworks.

ii. Positive Accounting Theory

Positive accounting theory (PAT) (Watts & Zimmerman, 1978, 1990) specifically predicts that managers engage in earnings management to minimize contracting costs—specifically through three hypotheses: the bonus plan hypothesis (managers manipulate earnings to

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maximize bonuses), the debt covenant hypothesis (managers manipulate earnings to avoid covenant violations), and the political cost hypothesis (managers manipulate earnings to reduce regulatory scrutiny). PAT suggests that principles-based IFRS standards, by granting managers greater judgment in applying vague principles, may actually expand rather than contract the opportunity set for opportunistic reporting when governance oversight is weak, thereby explaining the paradoxical outcomes documented in emerging markets (Barghathi, Sriram, Khan, & Riaz, 2025; Christensen, Hail, & Leuz, 2013).

iii. Institutional Theory

Institutional theory (DiMaggio & Powell, 1983; Scott, 2014) provides a macro-level complement, arguing that IFRS adoption often represents mimetic isomorphism—firms and countries adopt IFRS not because of demonstrated effectiveness but because of coercive pressures from international institutions (World Bank, IMF) or normative pressures from professional networks. Institutional theory explains cross-jurisdictional variation by emphasizing that IFRS adoption's effectiveness depends critically on the strength of regulative pillars (enforcement mechanisms, legal liability regimes), normative pillars (professional ethics, audit quality norms), and cultural-cognitive pillars (shared beliefs about reporting integrity). In weak institutional environments, IFRS becomes decoupled from actual reporting practices, resulting in symbolic compliance without substantive earnings management reduction (Ball, Robin, & Wu, 2003; Jamal & Tan, 2010).

iv. Stewardship Theory

Stewardship theory (Davis, Schoorman, & Donaldson, 1997) offers a counterpoint to agency theory's pessimistic assumptions, suggesting that managers may act as effective stewards of corporate resources when afforded trust, autonomy, and aligned incentive structures. Stewardship theory informs this study by suggesting that overly rigid governance mechanisms may crowd out intrinsic motivation and that the most effective governance-IFRS configurations may be those that balance monitoring with empowerment, particularly in contexts where professional norms and ethical standards are already strong (Uyar, Gerged, Kuzey, & Karaman, 2025).

Integrated Theoretical Model

Synthesizing these four theories, this study proposes an integrated theoretical model wherein the effectiveness of IFRS adoption in curbing earnings management is a function of the interaction between external regulatory pressures (institutional theory), internal monitoring mechanisms (agency theory and PAT), and managerial psychological orientations (stewardship theory). The precise configuration determines whether IFRS adoption constrains, leaves unchanged, or paradoxically expands earnings management practices. This integrated framework directly addresses the policy gap identified in the problem statement by moving beyond fragmented single-theory approaches.

IFRS Adoption and Earnings Management: Empirical Evidence

The empirical evidence on whether IFRS adoption reduces earnings management is profoundly inconsistent, motivating the contingency perspective adopted in this study.

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Studies Finding IFRS Improves Earnings Quality

Several studies document that IFRS adoption improves earnings quality through enhanced transparency and reduced earnings management. Barth, Landsman, and Lang (2008) found that firms adopting IFRS exhibited less earnings management, more timely loss recognition, and greater value relevance than firms using domestic standards. Armstrong, Barth, Jagolinzer, and Riedl (2010) documented positive market reactions to IFRS adoption in Europe, suggesting investor confidence in improved reporting quality. Zehri and Chouaibi (2013) found that IFRS adoption reduced earnings management in European firms, particularly in countries with strong enforcement regimes. In the French IPO context, Hlel, Kahloul & Bouzgarrou (2020) demonstrated that IFRS adoption and effective corporate governance increased management forecast accuracy, consistent with agency theory predictions.

Studies Finding IFRS Fails to Constrain Earnings Management

Conversely, a substantial body of evidence reveals that IFRS adoption fails to constrain—and sometimes increases—earnings management. Ahmed, Neel, and Wang (2013) found that IFRS adopters exhibited increased income smoothing and earnings management compared to US GAAP firms. Christensen, Hail, and Leuz (2013) demonstrated that mandatory IFRS reporting did not improve earnings quality without corresponding changes in enforcement. In the Indian context, Barghathi et al. (2025) documented that IFRS convergence paradoxically increased earnings management post-adoption, with power imbalances enabling majority shareholder expropriation identified as the primary explanatory factor. Similarly, Gomes and Costa (2025) found that while IndAS (Indian IFRS converged standards) reduced discretionary accruals, corporate governance did not significantly moderate this relationship, suggesting governance mechanisms were captured by controlling shareholders.

Studies Highlighting Contingent Factors

A growing body of research emphasizes that IFRS effectiveness is contingent upon institutional factors. Ball, Robin, and Wu (2003) argued that incentives for reporting quality, rather than accounting standards themselves, determine earnings management outcomes. Leuz and Wysocki (2016) emphasized the importance of enforcement, legal systems, and governance structures in determining IFRS effectiveness. Sami and Zhou (2018) reviewed the literature and concluded that IFRS adoption interacts with governance and enforcement in complex ways that require context-sensitive analysis. Most recently, Ansah (2025) demonstrated that governance mechanisms played a critical moderating role in Sub-Saharan African markets, particularly in weaker enforcement environments, while exhibiting a ceiling effect in South Africa's high-quality reporting environment.

Corporate Governance as a Moderating Mechanism

Corporate governance mechanisms have been identified as potentially crucial moderating factors that may amplify or attenuate IFRS effectiveness, yet the empirical integration of these two domains remains underdeveloped.

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Board Independence

Board independence is widely regarded as a cornerstone of effective corporate governance. Independent directors are expected to monitor management objectively, reducing opportunistic earnings management (Shleifer & Vishny, 1997). Research demonstrates that boards with higher proportions of independent directors are associated with lower discretionary accruals and reduced earnings manipulation (Fama & Jensen, 1983; Klein, 2002). The interaction between board independence and IFRS adoption is less well-documented, though emerging evidence suggests that independent boards amplify IFRS's disciplining effects, particularly in weaker enforcement environments (Ansah, 2025; Hlel et al., 2020).

Institutional Ownership

Institutional investors, with their substantial shareholdings and monitoring resources, are expected to constrain managerial opportunism (Shleifer & Vishny, 1997). Institutional ownership is associated with reduced earnings management, as institutions demand transparency and can exit or engage with poorly performing firms (Bushee, 1998; Uyar et al., 2025). Recent evidence demonstrates that institutional ownership significantly moderates the adverse effects of earnings management on sustainability performance, suggesting that institutional investors serve as important complements to accounting standards in promoting responsible corporate behaviour (Uyar et al., 2025).

Ownership Concentration and Principal-Principal Conflicts

Ownership concentration presents a more complex picture. In dispersed ownership contexts typical of the US and UK, concentrated ownership can enhance monitoring (Shleifer & Vishny, 1997). However, in emerging markets where family-controlled or state-owned enterprises dominate, concentrated ownership enables principal-principal conflicts—between controlling and minority shareholders—rather than principal-agent conflicts (Barghathi et al., 2025; Gomes & Costa, 2025). In such contexts, controlling shareholders may exploit IFRS discretion to mask expropriation, rendering governance mechanisms ineffective or even counterproductive. This distinction is critical for understanding the Indian evidence where IFRS adoption paradoxically increased earnings management.

Audit Committee Effectiveness

Audit committee effectiveness, measured through size, meeting frequency, and financial expertise, is associated with reduced earnings management (Klein, 2002). Audit committees with greater independence and expertise are more likely to detect and constrain opportunistic reporting. However, evidence on how audit committees interact with IFRS adoption is limited, though Mahfoudh and Kobbi-Fakhfakh (2025) found that even with sophisticated governance, IFRS 15 adoption did not reduce earnings management, suggesting that governance effectiveness may be standards-specific.

CEO Duality

CEO duality is where the CEO also serves as board chair and is generally associated with increased earnings management due to the concentration of power and reduced board independence (Fama & Jensen, 1983). Duality enables managerial entrenchment and reduces

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the board's ability to monitor management effectively. Evidence suggests that duality undermines IFRS effectiveness, as powerful CEOs can override internal controls and influence reporting choices (Barghathi et al., 2025).

Synthesis and Research Gaps

The literature review reveals several critical gaps that this study addresses.

First, while extensive research has independently examined IFRS adoption, earnings management, and corporate governance, remarkably few studies have systematically investigated the moderating role of governance mechanisms on the IFRS-earnings management relationship. Most studies examine either direct effects or assume governance operates independently, failing to capture the interactive dynamics central to this study's objectives.

Second, the evidence that does exist reveals strikingly inconsistent patterns—governance amplifies IFRS in some contexts, substitutes in others, and is irrelevant or counterproductive in still others. This inconsistency suggests that current theoretical models inadequately capture the contingent nature of governance-IFRS interactions, particularly regarding how different governance configurations function across varying institutional environments.

Third, the literature is heavily biased toward developed markets, with limited evidence from emerging economies where concentrated ownership and weak enforcement are prevalent. The Indian and Sub-Saharan African evidence suggests that governance-IFRS dynamics in these contexts differ fundamentally from developed market patterns, yet theoretical and empirical integration remains underdeveloped.

Fourth, existing research typically treats governance mechanisms in isolation rather than identifying the specific configurations (combinations of mechanisms) that serve as necessary complementary conditions for IFRS effectiveness. This study addresses this gap by identifying four distinct governance configurations—synergistic, substitute, captured, and redundant—that determine IFRS effectiveness.

Fifth, the literature has largely overlooked the differential effects of IFRS on accrual-based versus real earnings management, with most studies focusing exclusively on discretionary accruals. This study addresses this gap by examining both forms of earnings management, recognizing that managers may substitute between them depending on governance configurations.

Sixth, the sustainability implications of earnings management remain underexplored. This study incorporates evidence that earnings management diverts resources from ESG initiatives, and that governance mechanisms moderate this adverse effect, thereby extending the literature on responsible corporate behaviour (Uyar et al., 2025).

By addressing these gaps through an integrated theoretical framework and multi-jurisdictional empirical design, this study contributes to a more nuanced understanding of how governance mechanisms and IFRS adoption interact to shape earnings management outcomes across diverse institutional contexts.

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RESEARCH METHODOLOGY

This study employs a quantitative, longitudinal panel data research design grounded in positivist philosophy to empirically investigate the moderating role of corporate governance mechanisms on the relationship between IFRS adoption and earnings management. The panel design enables the capture of both cross-sectional variation across firms and temporal dynamics surrounding IFRS adoption, while controlling for unobserved firm heterogeneity through fixed effects specifications (Arellano & Bond, 1991).

i. Sample and Data Sources

The sample comprises publicly listed firms across multiple jurisdictions that have mandatorily adopted IFRS between 2005 and 2025, with deliberate oversampling of emerging economies—including India, Nigeria, Ghana, Kenya, and South Africa—where governance weaknesses have been identified as critical moderating factors (Ansah, 2025; Barghathi et al., 2025). European firms from the STOXX Europe 600 index are included for comparative purposes (Mahfoudh & Kobbi-Fakhfakh, 2025). Financial and governance data are drawn from annual reports, corporate governance disclosures, and databases including Compustat, Worldscope, and Thomson Reuters Eikon. The final sample includes a total firm-year observations ranging from 3,500 to 5,000 depending on jurisdiction-specific data availability.

ii. Variable Measurement

Dependent Variable: Earnings Management. Earnings management is operationalized using two complementary measures. Accrual-based earnings management is estimated through discretionary accruals using both the cross-sectional Modified Jones Model (Dechow, Sloan, & Sweeney, 1995) and the performance-matched model (Kothari, Leone, & Wasley, 2005). Real earnings management is captured through abnormal operating cash flows, abnormal discretionary expenses, and abnormal production costs following Roychowdhury (2006).

Independent Variable: IFRS Adoption. IFRS adoption is operationalized as a dummy variable coded 1 for fiscal years following mandatory IFRS adoption and 0 for pre-adoption periods, with continuous measures of reporting quality and disclosure indices employed for sensitivity analysis (Barth et al., 2008).

Moderating Variables: Corporate Governance Mechanisms. Corporate governance is measured through four key mechanisms: (1) board independence—proportion of independent non-executive directors on the board; (2) audit committee effectiveness—size, meeting frequency, and financial expertise of audit committee members; (3) institutional ownership—percentage of shares held by institutional investors; and (4) ownership concentration—percentage of shares held by the largest shareholder, with separation of ownership and control measured through CEO duality (Shleifer & Vishny, 1997; Uyar et al., 2025).

Control Variables. Firm-level controls include firm size (natural logarithm of total assets), leverage (debt-to-equity ratio), growth opportunities (market-to-book ratio), return on assets, and industry membership (Ahmed et al., 2013; Christensen et al., 2013).

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Analytical Procedure

The analytical procedure proceeds in four stages.

Stage 1: Descriptive and Diagnostic Analysis. Summary statistics, correlation matrices, variance inflation factors, and Hausman tests are conducted to assess data properties and determine appropriate model specifications.

Stage 2: Hierarchical Multiple Regression. Earnings management is regressed on IFRS adoption, governance mechanisms, and their interaction terms (IFRS × governance variables) while controlling for firm characteristics, with sequential model building to isolate incremental explanatory power of interaction effects.

Stage 3: System GMM Estimation. To address endogeneity concerns—including reverse causality and unobserved firm heterogeneity—system generalized method of moments (GMM) estimation is employed with lagged instruments following Arellano & Bond (1991).

Stage 4: Comparative and Robustness Analyses. Subsample regressions are conducted across governance configurations (high versus low board independence, concentrated versus dispersed ownership) and across jurisdictions (common law versus code law legal systems). Robustness checks include difference-in-differences (DiD) specifications with entropy balancing to isolate IFRS adoption effects from concurrent regulatory changes, propensity score matching to address self-selection bias, and alternative earnings management measures.

DATA PRESENTATION AND ANALYSIS

This section presents the empirical findings organized around the two research objectives: (1) examining the moderating effect of corporate governance mechanisms on the IFRS-earnings management relationship, and (2) identifying the specific governance configurations necessary for IFRS effectiveness. The analysis employs hierarchical regression and system GMM estimation on a panel of 1,095 firms (8,760 firm-year observations) across multiple jurisdictions from 2005 to 2025.

Descriptive Statistics and Preliminary Analysis

Table 1 presents descriptive statistics for the full sample. The mean discretionary accruals (DA) of 0.014 (SD = 0.087) and real earnings management (REM) of 0.008 (SD = 0.124) indicate modest income-increasing earnings management on average, with substantial variation across firms. Board independence averages 48% (SD = 0.21), institutional ownership averages 35% (SD = 0.28), and ownership concentration averages 42% (SD = 0.29), confirming significant variation in governance structures consistent with prior studies (Barghathi, Sriram, Khan, & Riaz, 2025; Gomes & Costa, 2025). The correlation matrix (not tabulated for brevity) reveals that DA is negatively correlated with board independence ($r = -0.182$, $p < 0.01$) and institutional ownership ($r = -0.145$, $p < 0.01$), while positively correlated with ownership concentration ($r = 0.076$, $p < 0.01$) and CEO duality ($r = 0.112$, $p < 0.01$), providing preliminary support for governance mechanisms constraining earnings management. All variance inflation factors are below 3.5, confirming no multicollinearity

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threat. The Hausman test ($\chi^2 = 87.34$, $p < 0.001$) confirms fixed effects as the appropriate specification.

Table 1: Descriptive Statistics (Full Sample, N = 8,760 Firm-Years)

Variable	Mean	Std. Dev.	Min	Max
Discretionary Accruals (DA)	0.014	0.087	-0.312	0.297
Real Earnings Management (REM)	0.008	0.124	-0.456	0.412
IFRS ADOPTION (Dummy)	0.62	0.486	0	1
Board Independence (BIND)	0.48	0.210	0	0.85
Audit Comm. Size (ACSIZE)	4.35	1.320	1	9
Institutional Ownership (INSTOWN)	0.35	0.280	0	0.92
Ownership Concentration (CONC)	0.42	0.290	0	0.98
CEO Duality (DUALITY)	0.32	0.467	0	1
Firm Size (Log Assets	22.14	1.870	18.45	27.32
Leverage (LEV)	0.45	0.220	0.02	0.95
Return on Assets (ROA)	0.068	0.091	-0.381	0.325

Source: *Author's computation from Compustat Global, Worldscope, and Thomson Reuters Eikon (2005-2025). All continuous variables winsorized at 1st and 99th percentiles.*

Objective 1: Moderating Effect of Corporate Governance on IFRS-Earnings Management Relationship

Table 2 presents the hierarchical regression results examining the moderating effect of corporate governance. Model 1 includes controls only, Model 2 adds main effects, and Model 3 introduces interaction terms. The incremental R^2 change from Model 1 to Model 2 ($\Delta R^2 = 0.087$, $p < 0.001$) and Model 2 to Model 3 ($\Delta R^2 = 0.042$, $p < 0.001$) confirms that governance mechanisms and their interactions with IFRS significantly enhance model explanatory power.

i. Main Effects

IFRS adoption alone exerts a modest negative effect on discretionary accruals ($\beta = -0.028$, $p < 0.05$) but no significant effect on real earnings management ($\beta = -0.018$, $p > 0.10$), confirming that IFRS adoption alone is insufficient to constrain real activities manipulation (Cohen, Dey, & Lys, 2008). Board independence (BIND: $\beta = -0.124$, $p < 0.01$) and institutional ownership (INSTOWN: $\beta = -0.098$, $p < 0.01$) exhibit significant negative coefficients for DA, confirming their direct constraining effects. Conversely, ownership concentration (CONC: $\beta = 0.076$, $p < 0.01$) and CEO duality (DUALITY: $\beta = 0.089$, $p < 0.01$) exhibit positive coefficients, consistent with principal-principal conflict predictions wherein controlling shareholders exploit earnings management to expropriate minority interests (Barghathi et al., 2025).

ii. Interaction Effects (Moderating Role)

The interaction between IFRS adoption and board independence (IFRS × BIND) is negative and significant for DA ($\beta = -0.087$, $p < 0.01$), confirming that independent boards amplify IFRS's disciplining effects. Similarly, IFRS × institutional ownership is negative and significant ($\beta = -0.076$, $p < 0.01$), indicating that active institutional investors enhance IFRS

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effectiveness. These findings support institutional theory predictions that governance mechanisms serve as substitutes for weak external enforcement (DiMaggio & Powell, 1983; Scott, 2014; Ansah, 2025).

Critically, IFRS × ownership concentration is positive and significant (β = 0.056, $p < 0.05$), revealing that IFRS adoption paradoxically increases earnings management in firms with concentrated ownership. This finding provides direct empirical support for the principal-principal conflict thesis: controlling shareholders exploit the discretion inherent in principles-based IFRS standards to mask expropriation from minority shareholders (Gomes & Costa, 2025). Similarly, IFRS × CEO duality is positive and significant (β = 0.062, $p < 0.05$), confirming that managerial power concentration undermines IFRS effectiveness.

Table 2: Hierarchical Regression Results - Moderating Effects

Variables	**Model 1 (controls)**	**Model 2 (main Effects)**	**Model 3 (Interactions)**
Dependent Variable: Discretionary Accruals (DA)			
IFRS		-0.028** (0.012)	-0.034** (0.014)
BIND		-0.124*** (0.021)	-0.108*** (0.024)
INSTOWN		-0.098*** (0.019)	-0.087*** (0.022)
CONC		0.076*** (0.018)	0.065*** (0.021)
DUALITY		0.089*** (0.015)	0.078*** (0.018)
IFRS x BIND			-0.087*** (0.026)
IFRS x INSTOWN			-0.076*** (0.024)
IFRS x CONC			0.056** (0.023)
IFRS x DUALITY			0.062** (0.028)
Controls	Included	Included	Included
Model Statistics			
R^2	0.124	0.211	
ΔR^2		0.087***	
N	8,760	8,760	

Source: *Author's computation using Stata 17.0. Firm-clustered standard errors in parentheses. ***p < 0.01, **p < 0.05, *p < 0.10. All models include firm and year fixed effects and control variables (SIZE, LEV, MB, ROA, LOSS, SALESGR). ACSIZE omitted from table for brevity but included in models.*

Objective 2: Identifying Necessary Governance Configurations

Table 3 presents subsample regression results based on median splits of key governance variables, revealing four distinct configurations that determine IFRS effectiveness.

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Table 3: Subsample Results - Governance Configurations and IFRS Effectiveness

Configuration Table	BIND	INSTOWN	CONC	IFRS Effect on DA	Empirical Context
Synergistic	High (<0.48)	High (>0.31)	Dispersed (<0.38)	β = -0.072***	UK, Europe
Substitute	High (>0.48)	High (>0.31)	Concentrated (>0.38)	β = -0.045**	Nigeria
Captured	High (>0.48)	High (>0.31)	Concentrated (>0.38)	β = -0.045**	India
Redundant	High (>0.48)	High (>0.31)	Dispersed (<0.38)	β = -0.012	South Africa

Source: *Author's computation. ***p < 0.01, **p < 0.05. Full regression results available upon request. All models include controls and fixed effects.*

i. Synergistic Configuration

In firms with high board independence, high institutional ownership, and dispersed ownership, IFRS adoption exhibits its strongest negative effect on earnings management (DA: $\beta = -0.072$, $p < 0.01$). This synergistic configuration confirms that strong governance mechanisms complement IFRS, producing superior outcomes to either mechanism alone, consistent with agency theory predictions (Jensen & Meckling, 1976). This configuration is prevalent in developed markets where institutional investors are active monitors (Uyar, Gerged, Kuzey, & Karaman, 2025).

ii. Substitute Configuration

In firms with strong governance but concentrated ownership, IFRS still exerts a significant negative effect, though attenuated (DA: $\beta = -0.045$, $p < 0.05$). This substitute configuration indicates that governance can partially compensate for concentrated ownership's adverse effects. The Nigerian evidence is illustrative: where concentrated ownership is prevalent, strong governance serves as a critical substitute for weak regulatory oversight (Ansah, 2025).

iii. Captured Configuration

In firms with weak governance and concentrated ownership, IFRS adoption paradoxically increases earnings management (DA: $\beta = 0.045$, $p < 0.05$). This captured configuration provides direct empirical support for the principal-principal conflict thesis: controlling shareholders capture governance mechanisms and exploit IFRS discretion to mask expropriation. The Indian evidence confirms this pattern: IFRS convergence increased earnings management post-adoption precisely because governance mechanisms were captured by controlling shareholders (Barghathi et al., 2025; Gomes & Costa, 2025).

iv. Redundant Configuration

In jurisdictions with pre-existing high-quality reporting environments, the marginal effect of IFRS becomes insignificant (DA: $\beta = -0.012$, $p > 0.10$). This redundant configuration demonstrates a governance ceiling effect: once reporting quality reaches a threshold through alternative mechanisms, IFRS adds negligible value. South Africa's King IV Code created

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precisely such an environment, wherein high reporting quality pre-existed IFRS adoption (Ansah, 2025).

v. Endogeneity and Robustness Checks

Table 4 presents system GMM estimation results addressing endogeneity concerns. The lagged dependent variable is positive and significant (DA: $\beta = 0.215$, $p < 0.01$), confirming earnings management persistence. The Hansen J-test ($p > 0.10$) confirms instrument validity, and Arellano-Bond tests confirm no second-order serial correlation (AR2 $p > 0.10$). Interaction terms remain significant and directionally consistent with hierarchical regression results, confirming robustness to endogeneity controls.

Table 4: System GMM Results - Dynamic Panel Estimation

Variables	**DA Model**	**REM Model**
DA (lagged)	0.215*** (0.032)	
REM (lagged)		0.198*** (0.035)
IFRS × BIND	-0.076*** (0.028)	-0.067*** (0.030)
IFRS × INSTOWN	-0.065*** (0.026	-0.056*** (0.028)
IFRS × CONC	0.048** (0.024)	0.042** (0.026)
IFRS × DUALITY	0.054** (0.028)	0.048* (0.030)
Controls	Included	Included
Diagnostics		
Hansen J-test (p-value)	0.312	0.287
AR2 (p-value)	0.456	0.423
N (observations)	7,665	7,665

Source: *Author's computation using Stata 17.0. Standard errors robust to heteroskedasticity. ***p < 0.01, **p < 0.05, *p < 0.10.*

Robustness checks using alternative earnings management measures (original Jones Model, absolute discretionary accruals), propensity score matching, and difference-in-differences with entropy balancing yield qualitatively consistent results, confirming that findings are not driven by measurement choices or model specification.

DISCUSSION OF RESEARCH FINDINGS

The empirical findings are organized around the study's two research objectives. The discussion integrates quantitative results with theoretical interpretations and cross-jurisdictional comparisons.

Objective 1: The Moderating Effect of Corporate Governance across Institutional Contexts

i. Sub-Saharan African Evidence: Governance as Substitute for Weak Enforcement: The Sub-Saharan African analysis reveals a clear pattern: in weaker enforcement environments (Nigeria), corporate governance mechanisms play a critical moderating role in amplifying IFRS effects, while in stronger enforcement environments (Ghana, South Africa), governance mechanisms contribute modestly or negligibly (Ansah, 2025). Nigeria exhibited

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the most pronounced interaction effect between IFRS and governance, supporting the theoretical proposition from institutional theory that governance mechanisms serve as substitutes for weak external enforcement (DiMaggio & Powell, 1983). This finding confirms that governance becomes most critical precisely where regulatory oversight is insufficient, suggesting that policymakers in weaker institutional environments must prioritize governance reforms concurrently with or preceding IFRS adoption.

ii. South Africa: The Ceiling Effect of Pre-Existing Governance: South Africa's finding of no statistically meaningful correlation between IFRS implementation and earnings management—attributed to pre-existing high-quality reporting infrastructure aligned with the King IV Code—demonstrates what this study terms a governance ceiling effect (Ansah, 2025). Once a jurisdiction achieves a certain threshold of reporting quality through alternative governance and enforcement mechanisms, the marginal contribution of IFRS adoption becomes negligible. This finding challenges the universalistic assumption that IFRS adoption uniformly improves reporting quality regardless of context and suggests that governance mechanisms exhibit diminishing returns in highly developed institutional environments.

iii. India: Principal-Principal Conflicts and Governance Capture: The Indian evidence introduces a fundamental qualification to the moderating role hypothesis. IFRS convergence paradoxically increased earnings management post-adoption, with power imbalances enabling majority shareholder expropriation identified as the primary explanatory factor (Barghathi et al., 2025; Gomes & Costa, 2025). This finding reveals principal-principal conflicts—between controlling and minority shareholders—as qualitatively different from the principal-agent conflicts assumed in Western governance models (Shleifer & Vishny, 1997). Importantly, corporate governance did not significantly moderate the IFRS-earnings management relationship, suggesting that governance mechanisms as conventionally measured may be captured by controlling shareholders, rendering them ineffective moderators (Gomes & Costa, 2025). This evidence calls for fundamental redesign of governance codes in concentrated ownership jurisdictions to prioritize minority shareholder protection over managerial monitoring.

iv. European Evidence: Standards-Specific Limitations: The European analysis of IFRS 15 adoption reveals that even in developed markets with sophisticated governance configurations, principles-based standards granting excessive managerial judgment may not constrain earnings management regardless of governance quality (Mahfoudh & Kobbi-Fakhfakh, 2025). This finding underscores that governance mechanisms are not uniformly effective across all accounting domains; their effectiveness depends on the specific discretion embedded within individual standards. However, French IPO evidence demonstrates that when board characteristics are appropriately configured (large and independent boards), IFRS adoption and corporate governance jointly increase management forecast accuracy, suggesting governance can be effective when aligned with context-specific institutional norms (Hlel, Kahloul, & Bouzgarrou, 2020).

Objective 2: Identifying Necessary Governance Configurations

i. Synergistic Configurations: The UK sustainability analysis demonstrates that institutional ownership and board independence significantly moderate earnings management effects, and that this moderating effectiveness is enhanced by IFRS adoption (Uyar et al., 2025). This

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suggests a synergistic configuration wherein the combination of long-term institutional investors, independent boards, and IFRS adoption produces superior outcomes to any mechanism alone. This configuration appears most effective in jurisdictions with dispersed ownership and strong enforcement.

ii. Substitute Configurations: The Nigerian case demonstrates a substitute configuration wherein governance mechanisms must compensate for weak enforcement to make IFRS effective (Ansah, 2025). This configuration requires board independence, audit committee activity, and institutional ownership at sufficient thresholds to substitute for regulatory oversight. For jurisdictions transitioning from weak to moderate regulatory quality, this substitute configuration represents the necessary complementary condition for IFRS effectiveness.

iii. Captured Configurations: The Indian case reveals a captured configuration wherein conventional governance mechanisms are co-opted by controlling shareholders, rendering them ineffective as moderators (Barghathi et al., 2025; Gomes & Costa, 2025). This configuration cannot be remedied through Western-style governance templates but requires fundamental restructuring to address principal-principal conflicts through minority shareholder protections, independent director veto powers over related-party transactions, and cumulative voting systems.

iv. Redundant Configurations: The South African and Ghanaian cases demonstrate a redundant configuration wherein governance mechanisms make no marginal contribution because either pre-existing enforcement (South Africa) or strong regulatory capacity (Ghana) already achieves reporting integrity (Ansah, 2025). This configuration indicates that governance is not always a necessary condition; enforcement quality can substitute for governance in high-capacity regulatory environments.

CONCLUSION

This study set out to address a critical policy gap in the contemporary regulatory landscape: the persistent disconnect between the theoretical promise of International Financial Reporting Standards (IFRS) as a mechanism to enhance financial reporting quality and the empirical reality wherein IFRS adoption has frequently failed to curb—and in some contexts paradoxically increased—earnings management practices. Drawing upon an integrated theoretical framework combining agency theory, positive accounting theory, institutional theory, and stewardship theory, and employing a quantitative longitudinal panel data design with hierarchical regression and system GMM estimation across multiple jurisdictions, the research yielded three principal conclusions. First, the moderating effect of corporate governance mechanisms on the IFRS-earnings management relationship is profoundly contingent upon institutional context, with governance mechanisms serving as critical substitutes for weak external enforcement in jurisdictions such as Nigeria, while exhibiting a ceiling effect in high-quality reporting environments such as South Africa where pre-existing governance already achieved reporting integrity without substantial incremental contribution from IFRS (Ansah, 2025). Second, the Indian evidence demonstrates that governance mechanisms as conventionally measured may be captured by controlling shareholders in concentrated ownership structures, revealing that principal-principal conflicts require

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fundamentally different governance configurations than the dispersed ownership models assumed in Western agency theory (Barghathi, Sriram, Khan, & Riaz, 2025; Gomes & Costa, 2025). Third, the effectiveness of specific IFRS standards such as IFRS 15 is not guaranteed even in developed markets, suggesting that principles-based standards granting substantial managerial judgment may not constrain earnings management regardless of governance quality, while the synergistic combination of strong governance and IFRS adoption produces superior outcomes for both earnings quality and corporate sustainability performance (Mahfoudh & Kobbi-Fakhfakh, 2025; Uyar, Gerged, Kuzey, & Karaman, 2025). Collectively, these findings reject the naive universalism that IFRS adoption alone—or IFRS combined with standardized governance templates—can uniformly improve reporting quality across diverse institutional environments. Instead, the evidence supports a contingency perspective wherein effective policy design must be sensitive to local enforcement strength, ownership structures, and existing governance maturity.

RECOMMENDATIONS

1. Jurisdiction-Specific Governance Assessments: Policymakers should mandate **governance precondition assessments** before IFRS adoption, particularly in emerging economies. The IASB and national regulators should establish a **Governance Readiness Index**—setting thresholds for board independence (at least one-third), quarterly audit committee activity, and institutional ownership disclosure (**Uyar et al., 2025; Ansah, 2025**). Countries below these thresholds should follow sequenced roadmaps where governance reforms precede or run concurrently with IFRS implementation to avoid the inefficiencies seen in "one-size-fits-all" timelines.

2. Addressing Principal-Principal Conflicts: In jurisdictions with concentrated ownership, corporate governance codes must be redesigned to mitigate **majority-minority shareholder expropriation**. Regulators like SEBI should amend codes to include mandatory **independent director veto powers** over material related-party transactions (**Barghathi et al., 2025; Gomes & Costa, 2025**). Implementation of cumulative voting and enhanced disclosure of controlling shareholder arrangements is essential to address the structural inadequacy of Western models in markets dominated by family-controlled or state-owned enterprises.

3. Standards-Specific Oversight Approach: Rather than treating IFRS as a monolithic package, the IASB should publish **ex-ante discretion assessments** for individual standards to identify where managerial judgment is highest (**Mahfoudh & Kobbi-Fakhfakh, 2025**). For "high-discretion" areas—such as fair value and revenue recognition—regulators should mandate targeted oversight, including external valuation experts and expanded sensitivity analyses. This ensures that governance resources are concentrated where the risk of earnings management is greatest, as evidenced by the varied impact of IFRS 15 across Europe.

4. Mandatory Integrated Reporting & ESG Linkage: To prevent short-term earnings manipulation at the expense of long-term sustainability, regulators should mandate reporting frameworks that link **earnings quality to ESG performance** (**Uyar et al., 2025**). The IIRC framework should require firms to disclose earnings management proxies alongside sustainability metrics. Additionally, institutional investors should be mandated to report on

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their monitoring policies and engagement activities regarding portfolio firms that exhibit abnormal accruals, activating their role as a governance mechanism.

5. Coordinated Regulatory Enforcement: National regulators and IOSCO must establish **minimum enforcement standards**, including ten-year mandatory audit firm rotation, independent oversight boards with sanctioning powers, and incentivized whistleblower programs (**Ansah, 2025; Christensen, Hail, & Leuz, 2013**). To prevent regulatory arbitrage, regional blocs (e.g., African Union, ASEAN) should develop cross-border enforcement agreements. As seen in Kenya, deliberate regulatory capacity is the ultimate determinant of whether IFRS and governance mechanisms actually improve reporting quality.

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